

Metcash Limited
Tax Transparency Report
For the year ended 30 April 2018





Metcash Limited Tax Transparency Report

1. Introduction

Metcash Limited (**Metcash**) is a signatory to the voluntary Tax Transparency Code (**TTC**) released by the Board of Taxation in May 2016, and is pleased to present its first Tax Transparency Report, for the financial year ended 30 April 2018.

As a signatory to the TTC, Metcash welcomes the increased tax transparency and the focus on ensuring that corporates pay their fair share of Australian tax.

This report satisfies each of the Part A and Part B requirements of the TTC including;

- Our approach to tax policy, tax strategy and tax governance;
- Our tax contributions;
- A reconciliation of accounting profit to income tax expense, and from income tax expense to income tax payable; and
- Our effective tax rates for our Australian and global operations.

This report should be read in conjunction with the Metcash 2018 annual report which can be found on the Metcash website at www.metcash.com.

2. Overview of Metcash

Metcash is Australia's leading wholesaler and distributor, supplying and supporting more than 100,000 businesses across a network of both independent retailers and company owned stores in the food and grocery, liquor and hardware sectors. Our focus is to champion successful independents to become the 'Best Store in Town', by supporting our network of strong retail brands with merchandising, operational and marketing expertise.

In Food, we proudly support a network of over 1,600 independently owned stores Australia-wide, including the well known IGA and Foodland (**IGA**) brands. Our retailer partners mix the personal contact, knowledge and convenience of a local store, with the quality and competitive prices of a national chain. The stores that we support sit at the heart of the local community, sourcing the best products from local producers and helping the local economy.

In Liquor, we are the largest supplier to independent liquor retailers and the second-largest broad range liquor wholesaler in Australia. Through our Independent Brands Australia (**IBA**) banner group, we support over 2,700 stores across leading independent retail brands such as Cellarbrations, The Bottle-O, IGA Liquor, Duncan's, Thirsty Camel, Big Bargain and Porters.

In Hardware, we are the largest independent hardware group in Australia and a true leader when it comes to servicing the trade market. Under our Independent Hardware Group (**IHG**), we support leading independent hardware brands Mitre 10 and Home Timber & Hardware along with Hardings, Thrifty-Link Hardware and True Value Hardware. We supply more than 1,200 stores nationwide.



3. Metcash's Approach to Tax Policy, Tax Strategy and Tax Governance

Metcash's Board and senior management are committed to the highest standards of corporate governance, including tax governance, which underpin our approach to sustainably enhancing shareholder value and protecting the interests of all stakeholders.

In relation to tax governance, Metcash pursues an approach that is transparent and sustainable. This approach is guided by a Board approved "Tax Board Policy". Under this policy, the Board has endorsed the following principles:

- Commitment to ensure full compliance with all statutory obligations and ensuring that all tax liabilities properly due under the law are correctly recorded, accounted for and paid.
- Maintenance of documented policies and internal controls in relation to tax risk management, including risk assessments and reporting to the Board on a regular basis.
- Sustaining engagement with revenue authorities including a commitment to transparency and full disclosure.
- Management of tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law and tolerating a low level of tax risk.

The responsibilities arising under the Tax Board Policy are owned by Metcash's Audit, Risk & Compliance Committee (**ARCC**) with active oversight from the Board. Operationally, the Chief Financial Officer (**CFO**) is responsible for ensuring the implementation of Metcash's tax risk framework and regular reporting to the ARCC. The CFO is supported by the General Manager Finance and the Group Tax Manager to ensure that the necessary policies and procedures are maintained and consistently applied.

In the event that the application of a tax law is unclear, external advice is sought. Metcash does not pursue aggressive tax planning and does not carry on business in any tax havens or low tax jurisdictions.

4. Metcash's Engagement with Revenue Authorities

Consistent with the principles endorsed by the Board, Metcash is committed to maintaining open and transparent relationships with the Australian Taxation Office (**ATO**) and other revenue authorities.

Metcash is allocated a risk rating by the ATO on an annual basis. In December 2018, the ATO categorised Metcash as a "Key Taxpayer" for income tax, GST and excise in respect of the financial year ended 30 April 2018.

As a Key Taxpayer, Metcash engages with the ATO on a frequent basis in the context of reviews, audits and Ruling Request applications. Metcash also proactively engages with the ATO to provide context to proposed transactions, changes in business arrangements or to request guidance. Our open, transparent and co-operative engagement with the tax authorities has been acknowledged by the ATO.

5. International related party dealings

Whilst Metcash almost exclusively carries on business in Australia, it does conduct some minor trading activities through wholly owned subsidiaries resident in New Zealand and China. The combined revenues of these businesses equates to approximately 1% of Metcash's total revenues. Both of these businesses engage in international related party dealings which are not material to Metcash's Australian taxable income.

The New Zealand enterprise carries on a business of liquor wholesaling and distribution. Its international related party dealings are limited to recharges for support services provided to the NZ business and intercompany balances that may arise from time to time.

The Chinese enterprise¹ carries on a business of selling food and liquor into the Chinese market and providing support services to the Australian business in relation to sales to Chinese customers through third party online platforms. The international related party dealings are limited to the sale of food and liquor to the Chinese business and recharges for support services provided by the Chinese business.

Metcash applies the transfer pricing principles and documentation requirements under the local country laws and the Organisation for Economic Co-operation and Development (**OECD**) guidelines in pricing its international related party dealings.

In 2018, Metcash prepared and lodged its first Country by Country Report with the ATO. In compliance with both Australian filing requirements and the OECD BEPS Action Plan, the Country by Country Report contains details about Metcash's international related party dealings, revenue, profits and taxes paid by jurisdiction. Under the intergovernmental exchange of information agreements, this Country by Country Report is available to overseas tax authorities.

6. Income tax expense and income tax payable

Outlined in the table below is a reconciliation of the accounting profit/(loss) to income tax expense for the Metcash Australian tax consolidated group² and the Metcash consolidated worldwide group³ for the year ended 30 April 2018. This reconciliation should be read in conjunction with Note 4 (Income Tax) of our financial statements for the year ended 30 April 2018.

Differences between Metcash's accounting profit and taxable income are due to both temporary and non-temporary (or permanent) differences. Non-temporary differences arise where amounts recognised as income or expenses under the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) do not give rise to equivalent taxable or deductible amounts under the Australian tax law (or vice versa).

Temporary or timing differences arise where amounts are recognised as income or expenses under the accounting standards in a different period to which they are taxable or deductible under the tax law.

¹ On 8 November 2018, Metcash announced that it had entered into an agreement to sell an effective 85% interest in Metcash Asia Limited, its wholly owned Chinese resident subsidiary, to eCargo Holdings Limited. This transaction completed on 25 February 2019.

² The Metcash Limited Australian tax consolidated group comprises Metcash Limited and each of its wholly owned Australian resident subsidiaries.

³ In addition to the Metcash Limited Australian tax consolidated group, the Metcash consolidated worldwide group comprises the New Zealand and Chinese subsidiaries along with non-wholly owned Australian resident subsidiaries that are consolidated with Metcash Limited for accounting purposes.

Table One. Reconciliation of accounting profit/(loss) to income tax expense

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
Net Profit / (Loss) Before Tax	(87.1)	(73.8)
Prima facie income tax @ 30%	(26.1)	(22.1)
Non-Temporary (Permanent) Differences		
Impairment of goodwill and other assets	99.1	99.1
Expenditure not deductible for income tax purposes	0.9	0.9
Amounts not assessable for income tax purposes	(1.9)	(1.9)
Adjustments in respect of income tax of prior years	(3.0)	(3.1)
Income Tax Expense	69.0	72.9

Outlined in the table below is a reconciliation of income tax expense to income tax payable for the Metcash Australian tax consolidated group and the Metcash consolidated worldwide group for the year ended 30 April 2018. More than 99% of Metcash's corporate tax liabilities are paid in Australia.

Table Two. Reconciliation of income tax expense to income tax payable

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
Income Tax Expense	69.0	72.9
Temporary (timing) differences	11.6	11.6
Adjustments in respect of income tax of prior years	3.0	3.1
Income Tax Payable	83.6	87.6

7. Effective Tax Rate

Outlined in the table below is the effective tax rate for the Metcash Australian tax consolidated group and the Metcash consolidated worldwide group for the year ended 30 April 2018.

The effective tax rate is calculated as income tax expense divided by profit before tax. However, both the Metcash Australian Tax Consolidated Group and the Metcash consolidated worldwide group incurred an accounting loss during the year ended 30 April 2018. As disclosed in Note 3 of our financial statements for the year ended 30 April 2018, the accounting loss was due to an impairment expense of \$352.1 million which was recorded against the carrying value of assets (primarily goodwill and other intangible assets) in the Food & Grocery segment.

With a view to providing a more meaningful measure of our effective tax rate we have disregarded the impact of this impairment in calculating our effective tax rate.

Table Three. Effective tax rate

	Australian Tax Consolidated Group \$m	Consolidated Worldwide Group \$m
Effective Tax Rate⁴	28.5%	28.5%

⁴ Metcash's effective tax rate for the year ended 30 April 2018 is marginally lower than the Australian corporate tax rate of 30% due to a number of non-temporary differences including non-assessable accounting profits recognised in relation to equity accounted associates and the recognition of previously unbooked capital losses to offset capital gains.

8. Tax Contribution Summary

Metcash pays a range of different taxes to the Australian Federal, State and Territory governments each year. The table below summarises the taxes that were paid and collected/remitted by the Metcash Limited Australian tax consolidated group during the year ended 30 April 2018.

Table Four. Taxes paid during the year ended 30 April 2018

Description	\$m
Income tax	61.6 ⁵
Excise duties	482.5
Customs duties	226.4
Payroll tax	25.1
Other taxes	3.6
Total Taxes Paid	799.2

Table Five. Taxes collected/remitted during the year ended 30 April 2018

Description	\$m
Net Goods and Services Tax	165.3
Employee PAYG withholding tax	111.2
Wine Equalisation Tax	161.1
Total Taxes Collected/Remitted	437.6

⁵ Income tax paid represents cash taxes paid during the 2018 financial year and does not reflect the income tax liability relating to that year.